Comprehensive Accounting Review

ALTS/ COMPTEL/XO Communications

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Not just talk.

Overview

•USTA request to eliminate FCC Class A Accounting and ARMIS Reports is Premature

•Existing Safeguards Must Remain in Place while Local Competition continues to develop.

•USTA proposal would negatively impact State UNE Ratemaking, Pole Attachment and Depreciation proceedings and potentially lead to increased rates.

•The Costs of Eliminating these Requirements Outweigh the Alleged Speculative Benefits associated with any potential ILEC cost savings and lifting of administrative burdens

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No Record Support for Gutting Existing Federal Accounting Safeguards

- FCC initiated streamlining proceeding under Section 11 of the Communications Act.
- Section 11, however, requires the FCC to first:

  "...determine whether any such regulation is no longer necessary in the public interest as a result of meaningful economic competition between providers of such service."
- Neither the NPRM, USTA Petition, nor the Record provide any analysis of competition for ILEC services to support wholesale elimination of federal accounting and reporting requirements.

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FCC Data Demonstrates that Local Market is Not Yet Fully Competitive

- ILECs maintain local bottleneck stranglehold with near 94% market share of U.S. access lines *(FCC Local Competition Report – As of 12/31/00)*
- CLECs continue to build out network infrastructure, however, "last mile" facilities cannot be deployed on a ubiquitious basis overnight
- CLECs thus remain highly dependent on ILEC "last mile" bottleneck facilities to serve end user customers
- Access to ILEC UNEs at TELRIC pricing is critical for continued growth and development of local competition

FCC Streamlining Proposal

- Agree that Outmoded Regulations Need to Be Eliminated or Revised
  - Do not oppose FCC proposal to eliminate certain revenue account detail

- Elimination of Overhead Expense Account Detail-at this stage of competition- IS PREMATURE

- USTA's Proposal would gut FCC's non-structural accounting safeguards and strip Federal and State regulators of critical data necessary to protect against potential ILEC anti-competitive and discriminatory behavior

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USOA TODAY

- Uniform System of Accounts (Part 32) – Aggregate report of thousands of accounts already maintained by ILECs
- Nearly Universally Adopted by State PUCs
  - Permits for accounting uniformity between federal and state jurisdictions on regulatory oversight
- Fully Compliant with Generally Accepted Accounting Principles (GAAP)
- Provides Critical Cost Data for Promoting Competition and Protecting Consumers

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USOA Still Relevant And Useful in Transition to Competitive Environment

Used for Cost Model Input

- ILECs use detailed USOA data to create cost studies to justify Unbundled Network Element (UNE) Rates, Collocation Rates and Rates for interconnection and other services.
- USOA provides data foundation for FCC's Universal Service High Cost support model
  - ARMIS Data used to calculate forward looking cost of the efficient network (e.g., need to look at Class A data to create expense factors for digital switching equipment).

Assists in Setting Depreciation Rates

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Cont'd

- Establishing Pole Attachment Rates
  - Existing FCC rules require use of Class A (pole and conduit investment and expense data) to determine rates for access to pole, ducts and conduits.
- Used in Cost Allocation Process
  - Class A inputs used for cost apportionment between ILEC Regulated and Non-regulated activities
- Jurisdictional Separations

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Link Between Rates and Historic Costs

Link Not Yet Severed

- USOA data used to adjust price cap indices and determine exogenous adjustments based on actual cost changes
  - E.g.: Verizon filed for an exogenous adjustment for rates charged to CLECs for electric power in Central office Collocation Arrangements
  - Verizon cost support data filed to justify rate changes used disaggregated USOA Class A data.

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- Oversight of the Federal Subscriber Line Charge Under the "CALLS" Proceeding
- In "CALLS" - - FCC stated that above cap increases to residential and single-line business SLC rates would be scrutinized to ensure that increases actually reflect higher ILEC costs
  - FCC stated it would initiate a cost review proceeding before any above cap increases become effective
  - Such Review Would Entail Analysis of Specific Pt 32 Cost Data

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Potential Impact of Eliminating Class A Accounting and Reporting Requirements

- UNE Ratemaking: Will potentially raise rates and hurt competition. Without sufficient disaggregation, ILECs would have an unfavorable advantage in rate making proceedings because they would be the only parties with access to disaggregated cost data.
- Cost Model Inputs: Lead to distortions in reported data. Hamper ability to obtain accurate inputs and update model input data.
  - Unlike Class A, Class B aggregates accounting data and would allow ILECs to mix and match expense data that may have very different cost characteristics (e.g., combining different switching technologies under one account)
- Pole Attachment and Depreciation Rates: Class B uses only 1 account for all outside cable and wire investment – no cost detail available to federal and state regulators to determine just and reasonable pole attachment rates. Under Class B, FCC would most likely be unable to update depreciation ranges set forth in 12/99 Depreciation Order.

Not just talk.

FCC Accounting and Reporting Requirements Are Not Overly Burdensome for ILECs

- Approximately 300 Class A accounts are already minimal.
- Largest ILECs maintain between 2,500 and 3,000 accounts in their own internal accounting systems
- CLECs that are not subject to Part 32 and much smaller than the RBOCs typically maintain more than 300 accounts.
  - XO maintains over 1,700 accounts in its internal accounting system.
- Even the smallest ILECs use Class A accounting in order to obtain Rural Utility Service (RUS) loans.
- Finally, as the Idaho PUC notes, elimination of Class A may actually increase ILEC costs because states may have to replace the federal reporting requirements with independent state accounting requirements.

FCC Should Not Eliminate the Continuing Property Records Requirement

- CPR records ensure that largest USOA accounts--network plant accounts—accurately reflect ILEC assets in service.
- Inaccurate or non-existent CPRs raise serious questions regarding accuracy of ILEC cost data.
- CPRs used by states for jurisdictional separations and cost allocation purposes.
- FCC must first publicly address compliance problems noted during FCC Audits that revealed nearly $5 billion of unaccounted ILEC plant.

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